Chapter 11

International Organisational Structures as Coordination Mechanism

Organisational structures can be understood to represent the "anatomy" of the organisation. They describe the formal design of the resources and responsibilities. Different organisational structures lead to different behaviours of employees, because the structure and subordination in hierarchies define the focus of work as well as the official channels of knowledge transfer. The aim of this Chapter is to give an overview of organisational structures and to discuss the strengths and weaknesses of each.

Introduction

The *formal organisational structure* is concerned with how the company decides to divide itself into subunits (Hill 2013, pp. 452-453). The structure is the result of a departmentalisation or grouping of activities within organisational units, following the principle of *labour division* as a mechanism of organisational influence (Martinez/Jarillo 1989, p. 489). A fundamental consideration concerning the organisational structure of companies can be based on an argument by Thompson (1967, p. 70), who argued that – under *administrative rationality* – companies that are active in heterogeneous task environments attempt to identify more homogeneous subsegments in those tasks and create organisational units that have responsibility for one of those more homogeneous tasks. Compared with a purely national organisation, MNCs face an *additional heterogeneity*, namely the different conditions in different host countries (Nohria/Ghoshal 1997).

Organisational design can be seen as the *anatomy* of the organisation which describes the formal structure of its resources, assets and responsibilities (Bartlett/Beamish 2014, p. 287). The organisational structure of a company has a number of functions (see, e.g., Griffin/Pustay 2013, pp. 394-395):

- It defines the *activities* that are grouped together and assigns *tasks* to employees.
- It defines the *hierarchical structure,* including lines of authority, subordination and responsibilities within the organisation.
- It designs the *allocation* of organisational resources.

D. Morschett, H. Schramm-Klein, J. Zentes, *Strategic International Management*, DOI 10.1007/978-3-658-07884-3_11

- It establishes official *lines of communication* to transfer information necessary for problem solving, *decision making* and effective organisational control.

Balance Responsiveness and Integration

In particular, for an MNC, the organisational structure helps to influence the balance between responsiveness and integration. The need for responsiveness stems from diverse requirements that exist due to heterogeneity between countries, but also between product lines and organisational functions. The need for integration comes from the need to coordinate the activities of the MNC in order to ensure effective strategy implementation, to exploit synergies and to optimise resource allocation (Shenkar/Luo 2008, p. 314). This *integration* may also, inter alia, be across countries, product lines, and/or functions. In selecting a specific organisational structure, companies influence the level of differentiation and integration. As with International Management in general, it is the goal of the company to find a structure that balances the needs for (external) *effectiveness* and (internal) *efficiency*.

Types of Organisational Structures

The most relevant *organisational structures* for internationally active companies are (Griffin/Pustay 2013, pp. 394-404; Deresky 2014, p. 244):

- domestic structure with export department
- international division
- global functional structure
- global product structure
- global area structure
- global matrix structure
- hybrid global structure.

Structures at Early Stages of Internationalisation

In the early stages of internationalisation, an organisation is often split into functions reflecting the company's most relevant value chain activities (e.g. production, marketing & sales, finance, HRM). When companies commence their international involvement with their first exports, this does not usually change the organisational structure. Instead, these *exports* are often realised as part of the activities of the *marketing & sales department*.

Export Department

In the next stage, with increasing exports, the domestic structure may be expanded by adding a specific *export unit* or *export department* (Deresky 2014,

p. 244). Such a structure is often realised via a *direct reporting structure*, since the export manager reports directly to the top management of the company.

International Division

With further international expansion, *operation modes* often change (see Chapter 14). Sales subsidiaries are common and exporting is often supplemented by foreign production. Thus, the complexity and relevance of international activities lead to a need for internal specialists in those activities. The company may then decide to bundle all foreign activities within an international division which is largely independent. In this structure, the various foreign subsidiaries and activities, from sales offices to production plants, are organised in the *international division* and the subsidiary managers report to its head. This manager, in turn, often has a *direct reporting relationship* to the CEO of the company. The *internal organisation* of the international division may be based on function, product, or geography.

Characteristics of the International Division

The international division allows the MNC to allocate and coordinate resources and it accumulates all knowledge for foreign activities in one organisational unit, facilitating flexible responses to changes in the international environment, such as the emergence of new market opportunities. The division leads to *clear responsibilities*. On the other hand, the separation of all international activities might lead to *conflicts* over additional resources and it runs the risk of reducing the knowledge flow and synergy effects between the international and domestic business. *Redundant efforts* might also pose a problem (Zentes/Swoboda/Morschett 2004, pp. 757-761; Shenkar/Luo 2008, p. 315; Deresky 2014, pp. 244-245).

Integrated Structures

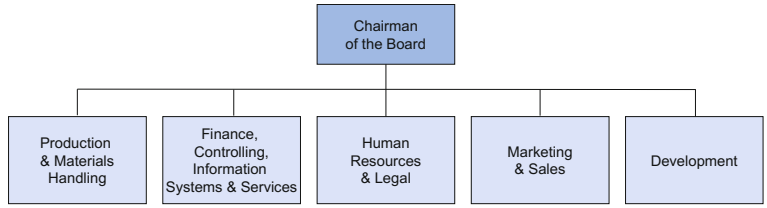
When the relevance of foreign activities grows further, that is, the percentage of foreign revenues increases and the complexity of foreign activities raise due to different types of value-added activities abroad, the deficits of structures in which international and domestic operations are separated become more evident. In such cases, a company may choose to develop an *integrated global structure* in which *domestic and foreign operations* are combined in the same organisational units and are led by the same top managers (Deresky 2014, pp. 244-245). This structure can be organised in various ways, including along functional, product or geographical lines.

Global Functional Structure

In a global functional structure, the activities of the MNC are organised around specific functions of production, marketing, finance, etc. (for an

example of such a structure, see Figure 11.1). Departments are created that have *worldwide responsibility* for the specific function.

Figure 11.1 *Global Functional Structure at STIHL AG*



Source: STIHL 2014.

Advantages of the Functional Structure

Foreign operations are integrated into the activities and responsibilities of each department, so as to gain *functional specialisation* and accumulate *functional expertise*. Furthermore, function-related *know-how transfer* is facilitated. Usually, functional structures lead to *centralised decision making* and companies that intend to impose *uniform standards* on all their worldwide activities can do that via a functional structure. Thus, this organisational form is sometimes called a "*U-form organisation*", where the "U" stands for "unitary". For subordinates, a clear line of responsibility and authority is given and duplication of effort can mostly be avoided. Further advantages are presented in Table 11.1.

Table 11.1 *Strengths and Weaknesses of a Global Functional Structure*

Strengths	Weaknesses
• intensive knowledge transfer concerning the function • focus on key functions • functional expertise • centralisation/standardisation • helps to "unify" the corporation • one line of responsibility • avoidance of double work	• knowledge transfer concerning other fields rather low (specific requirements of certain product groups, regions, customer groups often neglected) • potentially low motivation due to centralisation • slow reaction to changes in certain countries due to standardisation and formalisation • high requirements for information processing by top management • potentially lack of market orientation • difficult for subsidiaries with whole value-added chains

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 765.

Disadvantages of the Functional Structure

However, the *specific requirements* of certain product groups and regions might be neglected in this structure. There is the risk of a *lack of market orientation* in the organisation and high requirements for information processing at the top, where all major decisions for a function are made.

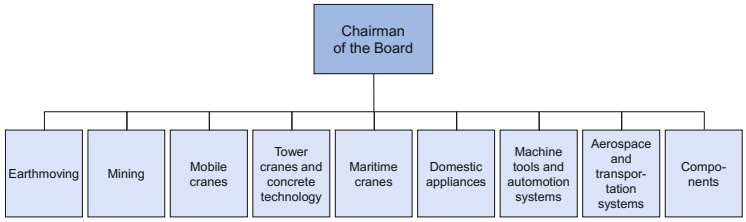
The structure is mainly appropriate if the company has rather *homogeneous product lines*, i.e. a low level of diversification, and if markets for its products are not strongly heterogeneous. For example, a *global strategy* which intends to exploit economies of scale and international synergies by integrating activities around the world can be implemented through a functional structure.

Global Product Structure

In a global product structure, the activities of the MNC are organised around specific products or product groups (see Figure 11.2). Departments or divisions are created that have worldwide responsibility for all functions concerning the specific product or product group. This structure is frequently used by MNCs. It is often called an "*M-form*" organisation, where "M" stands for "multi-divisional".

Figure 11.2

Global Product Structure at Liebherr



Source: Liebherr 2014.

Advantages of the Product Structure

The product structure allows managers to accumulate knowledge on their specific product or product group and develop substantial expertise. *Knowledge transfer* concerning the product is high. The structure aids *efficiencies in production*, e.g., to achieve economies of scale, and to exploit synergy effects fully. Similarities in needs across different markets are usually emphasised. Managers have the responsibility for all value chain activities for the product, i.e. production, marketing, development, which strongly in-

creases cross-functional collaboration. This facilitates the establishment of *cross-border value chains* for a product, where development might take place in highly developed countries, the manufacturing of most components is located in low-cost countries and other, more sophisticated production steps in industrialised countries (Shenkar/Luo 2008, p. 320). Furthermore, a rapid and flexible response to changes in market conditions is facilitated by this structure.

Disadvantages of the Product Structure

On the other hand, all *functions* (e.g. marketing, sales, and production) are duplicated in this organisational structure. Each product group needs to develop functional skills and often even its own physical facilities for operations. Economies of scope, e.g. knowledge concerning certain production processes or cross-use of new technological economies, are not fully considered. Regional knowledge needs to be developed in each product unit on its own and *divisional egoism* is a common source of conflict. A more detailed list of advantages and disadvantages is shown in Table 11.2.

Table 11.2 *Strengths and Weaknesses of a Global Product Structure*

Strengths	Weaknesses
• intensive knowledge transfer concerning the product/product groups • focus on differences between products • expertise for specific products • usually high market orientation of product divisions • coordination in companies with heterogeneous products facilitated • holistic view of the value chain • promotion of entrepreneurial behaviour • economies of scale easily exploited • flexible response to changes in product requirements	• duplication of functions • knowledge transfer concerning other fields (e.g. functions, regions) rather low • coordination and cooperation between different product divisions more complicated • risk of divisional egoism • difficult for foreign subsidiaries with more than one product line • lack of economies of scope

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 767.

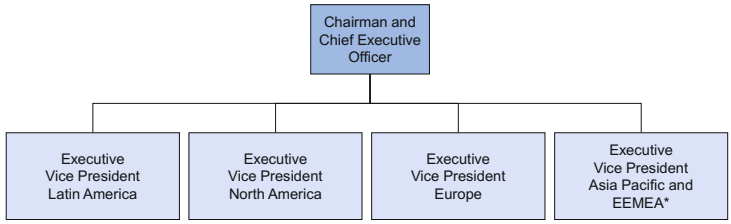
Usually, a global product structure is appropriate for companies with very heterogeneous product lines and technological requirements for those product lines, because common expertise for all product lines would be too complex. In particular, the structure can be applied when knowledge exchange and coordination between different product lines are not very important. Furthermore, the product structure is also appropriate for implementing a *global strategy* in which product-specific decisions are standardised worldwide.

Global Area Structure

In a global area structure (also called *global geographic structure* or *regional structure*), the activities of the MNC are organised around specific areas (or regions). An area may be a country or a group of countries. Departments or divisions are created that have responsibility for all functions and all products concerning the specific region (see Figure 11.3).

Global Area Structure at Mondelez International

Figure 11.3



Source: Mondelez International 2014.

Geographic divisions may be based on country borders, but also on cultural similarities (for example the D-A-CH region (Germany (D)-Austria (A)-Switzerland (CH)), regional integration agreements (like the EU), or logistical requirements (Shenkar/Luo 2008, p. 316). Following a trend from globalisation to regionalisation (Rugman/Verbeke 2003), a trend *to geographic organisational structures* seems likely to re-emerge (Shenkar/Luo 2008, p. 316).

Advantages of the Area Structure

Divisions with responsibility for one region facilitate a flexible and rapid response to changes in the local environment and help to exploit *local market opportunities* by enhancing responsiveness. *Coordination* is easier, not least due to geographical proximity. *Lines of authority* are very clear and they are local, providing easy channels for communication. The structure provides a holistic view on all business activities in the region, thereby also helping to develop a uniform image in the region. Market and marketing-oriented companies often use this structure. Regional knowledge is accumulated and regional particularities fully acknowledged in the organisation, which each area tending to be self-contained.

Disadvantages of the Area Structure

However, integration across the other organisational dimensions is weaker and often, the complexity of heterogeneous product offers is not fully considered. Functions are duplicated in the different regions and due to a *lack of worldwide synergy effects*, resources are often also accumulated and estab-

lished in each region. The risk of *regional egoism* emerges and it might be difficult to transfer knowledge across regions. Thus, the diffusion of technological innovations in the organisation may be slow and the "not invented here syndrome" could form a barrier to knowledge transfer. Synergy effects, as well as economies of scale, are often not fully exploited in this structure (Zentes/Swoboda/Morschett 2004, pp. 769-771; Shenkar/Luo 2008, p. 318). A list of strengths and weaknesses is displayed in Table 11.3.

Table 11.3 *Strengths and Weaknesses of a Global Area Structure*

Strengths	Weaknesses
• intensive knowledge transfer concerning the region • focus on differences between regions • regional expertise • communication and coordination advantages: personal communication as coordination instrument easy to use, due to geographic proximity • holistic view on business in the region • uniform company image in the region • flexible response to changes in local environment (local responsiveness easy)	• duplication of functions • duplication of resources • coordination and knowledge transfer across regions might be difficult and slow • risk of regional egoism • risk of overemphasis on regional differences • risk of low cost efficiency and low economies of scale due to local adaptation • diffusion of technology might be slowed down • "not invented here" syndrome • problems in technologically dynamic environments

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 770.

Thus, this structure is most appropriate for companies that intend to adapt to foreign markets (such as in the consumer goods sector) and that accept low information flows between different regions. In the I/R-framework (see Chapter 2), a *multinational strategy* seems to correspond closely to the strengths of a global geographic structure.

Other Dimensions of Structures: Customers or Projects

Besides functions, products or areas, other dimensions for global structures are possible. The question for a company is which object of its business is so relevant and at the same time so heterogeneous that it demands specific attention, expertise and treatment. This may be, for construction companies, specific projects.

More and more often, this object is the customer. If a company has very heterogeneous customer groups (such as commercial customers and private customers) or just a few very powerful customers (for example, some automotive suppliers or companies that sell their products via independent retailers), a company organises around these customers, with specific depart-

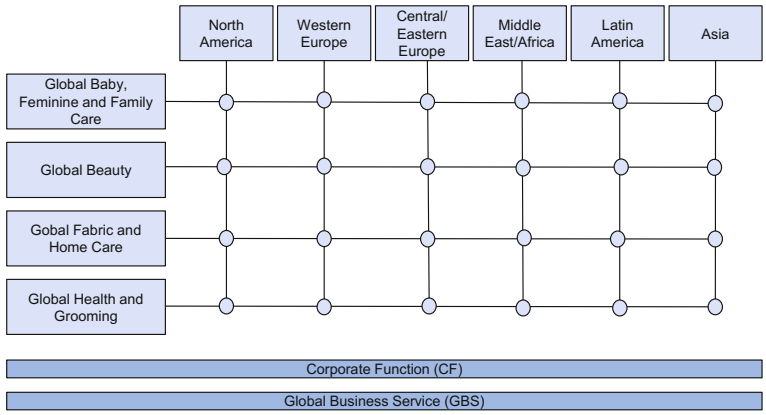
ments being responsible for a customer group or even a specific customer on a worldwide basis. In the latter case, the *global customer structure* is equivalent to *key account management*.

Global Matrix Structure

While the organisational structures that have been discussed above are *uni-dimensional*, i.e., they structure the top level of the organisation, based on one single dimension (e.g. functions, products, or areas), the matrix design is *multi-dimensional.* A global matrix structure is the result of applying two structural dimensions simultaneously at the highest level of hierarchy.

Global Matrix Structure at Procter & Gamble

Figure 11.4



Source: Procter & Gamble 2014.

For example, a global area structure and a global product structure could be used at the same time (see Figure 11.4), but any other combination of areas, functions, regions, customers, etc., is also possible. The managers in the matrix cells (nodes in the grid above) which represent, for example, managing directors of specific foreign subsidiaries, are simultaneously responsible to two executives in the two specified lines of authority.

Advantages and Disadvantages of the Matrix

The main advantage of this structure can be seen in the access to all advantages of the two underlying dimensions, without combining all the caveats. For example, the MNC can build on both the product and the regional expertise of the two different lines of authority. *Knowledge transfer* is inten-

sive, and the simultaneous consideration of specific requirements of at least two dimensions makes decision processes complex, but often very balanced between the different needs. This forced consideration of two aspects of the business should lead to an efficient allocation of resources. *Conflicts* in the organisation (which result from the two-dimensional lines of authority) are intended, but are assumed to enhance efficiency. Usually, this structure is *flexible* and easily adapted to changing external conditions. The structure is intended to promote coordination among the different structural dimensions. At the intersection of two lines of authority, a subsidiary manager has to report to two different supervisors. This enhances the information flow and the consideration of different aspects of a decision. However, this can also lead to *ambiguity*, slow decision processes and conflicts which, in this situation, result in pressure on the subsidiary manager. Often, to overcome this problem, a matrix structure is accompanied by decentralisation of decision power to lower levels in the hierarchy. Advantages and disadvantages of the matrix are listed in Table 11.4.

Table 11.4 *Strengths and Weaknesses of a Global Matrix Structure*

Strengths	Weaknesses
• provides access to advantages of the other organisational structures • combination of two or more areas of expertise • good knowledge transfer throughout the organisation • simultaneous consideration of product, region and/or function • better allocation of resources due to forced consideration of multiple aspects simultaneously • good opportunity to decentralise the decision process	• complex and costly • high requirements for information and communication • high requirements for cooperative behaviour • potential ambiguity of orders • decisions may take longer, often extensive meeting culture • risk of power struggles • appropriate for firms with many products and unstable environments

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 783; Griffin/Pustay 2013, pp. 401-402.

Internal and External Complexity

In particular, in dynamic and heterogeneous industries, a multi-dimensional organisation might be well suited to respond to the *external complexity* (Bartlett/Beamish 2014, p. 368). On the other hand, problems of internal complexity are not worth tackling in the case of relatively stable markets and homogeneous products (Griffin/Pustay 2013, pp. 401-402).

Hybrid Global Structures

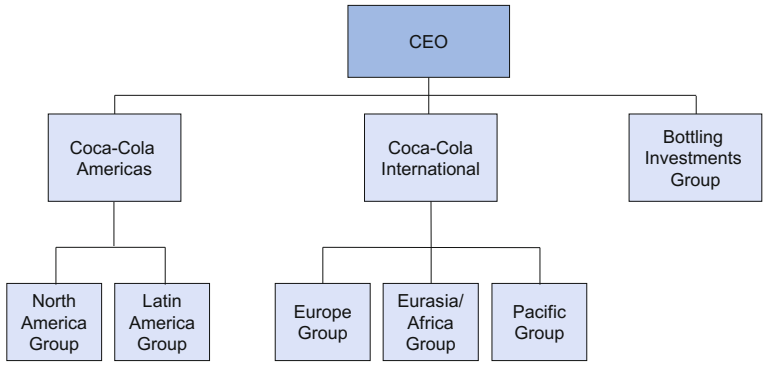
Mix of Other Structural Types

Companies with hybrid global structures do not apply the "ideal types", or pure structures that have been described above, but mix elements of differ-

ent types. For example, a company might decide to organise around products, but one specific product might be so important that the company divides the responsibility for this product among three regional managers. Another example is given in Figure 11.5.

Hybrid Global Structure at Coca-Cola

Figure 11.5



Source: Coca-Cola 2014.

Wide Use of Hybrid Structures

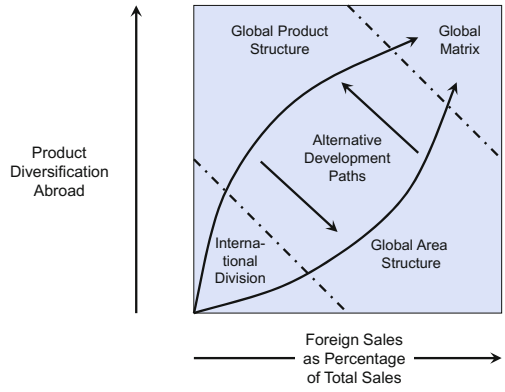
Most MNCs are likely to use – to some degree – hybrid structures and blend elements of all types (Griffin/Pustay 2013, pp. 402-404). The advantages of such mixes are that companies can differentiate between those elements of their business that need *differentiation*, while they can combine and integrate the dimensions that are better suited for *common leadership*. Since these dimensions are often not uniform across all products, functions and/or regions (or customers), a differentiated, hybrid approach might be more suitable. Taking the example of the *Coca-Cola Group*, different geographic areas should obviously be treated differently (and unified within) for most business activities. However, in addition, the organisational unit "bottling investments" manages all of the company's consolidated bottling investments, so as to drive growth and improve operating performance in this field across all markets in which *Coca-Cola* owns the bottling operations fully or partly. This, these operations should be treated uniformly across the world – with the worldwide responsibility given to one division of the *Coca-Cola Group*.

Structure Follows Strategy

As the descriptions of the various organisational structure types have shown, different structures are more or less suitable for specific MNCs. Based on studies by Chandler (1962), it has been proposed that *structure follows strategy*. In this perspective, organisational structure is seen as a mechanism for implementing a certain strategy. Furthermore, since each strategy has specific requirements, the choice of an organisational structure must be adapted to these requirements in order to maximise the success of the respective strategy.

Well known studies on organisational structure, many of them from the late 1960s and early 1970s, investigated the *structure-strategy relationship*. The best known of these studies, by Stopford and Wells (1972), empirically showed a relationship between different elements of the international strategy of the MNC (the degree of international diversification and the percentage of foreign sales) and the likelihood of certain organisational structures (see Figure 11.6).

Figure 11.6 *The Stages Model of Stopford and Wells*



Source: Adapted from Stopford/Wells 1972, p. 65.

Strategic Choice

However, the statement that "structure follows strategy" has been criticised as too simplistic. Indeed, it does to be too deterministic. In reality, companies have some *degree of choice* regarding which organisational structure they want to implement, and the strategy does not force the MNC to choose one

particular structure. Furthermore, a certain organisational structure also influences resource allocation within the company, as well as company objectives and decision processes. Thus, the strategy process is also influenced by the organisational structure, and sometimes, therefore, "*strategy follows structure*".

Fit between Structure, Strategy and External Environment

In a *contingency perspective*, companies have to align their strategies to the external environment, such as the industry requirements, and, discussed above, differences in the external environment (e.g. between regions) might imply certain organisational structures. Thus, some recent literature argues that there is no unidirectional influence of strategy on structure or vice versa, but that rather corporate strategy and corporate structure have to be aligned to each other with existing degrees of freedom, and *corporate strategy* and *corporate structure* both have to conform to the *external environment*.

Furthermore, different organisational structures have different information processing capacities, and since different MNC strategies result in different information processing requirements, different organisational structures might also be proposed from the information perspective (the *information processing approach* is explained in Chapter 10).

Dynamic of Structures

Studies on organisational structure often identify *patterns of development* (see, e.g., Figure 11.6). In an *evolutionary perspective*, companies may change their structure over time, for instance, as a consequence of learning. As MNCs develop and grow, they may have to change their structure. As has been shown in this Chapter, early internationalisation is often implemented with an international division, while the growing importance of international activities might lead to globally integrated structures.

Changing Structure when Changing Strategy

Even a mature MNC must make structural changes from time to time, such as to facilitate changes in strategy. For example, if the company changes its strategy from global standardisation to regionalisation, an appropriate organisational structure (e.g. a global area structure) strongly supports the implementation of the new strategy. Thus, following the *structure-follows-strategy thesis*, MNCs might adapt their structure when they change their strategy.

However, the simple patterns proposed by Stopford and Wells are often regarded as too simplistic and deterministic, and more recent studies have identified *development paths* from "simpler" types of organisations to more complex ones and vice versa (Buckley 1996, p. 43; Wolf/Egelhoff 2001, p. 136; 2013, pp. 598-600). Changes in the external environment might be another reason for structure switches.

Conclusion and Outlook

Organisational structures are an important *mechanism* for coordinating the international activities of a company. While it has been mentioned that the "*anatomy*" of the organisation is not sufficient as a coordination mechanism, it is undoubtedly a necessary component.

The suitability of certain organisational structures for certain MNC strategies and particular businesses has been discussed in this Chapter. In a dynamic perspective, it becomes evident that the choice of a structure is complex, and deterministic selection models tend to oversimplify. Generally, however, a *fit between strategy, context and structure* is seen as necessary in order to fully exploit the potential of a strategy.

While switches between organisational structures are a very common element of strategic change in organisations, a uniform trend cannot be identified. Some authors observe a trend away from g*lobalisation to regionalisation*. As a consequence of this trend, global area structures seem to emerge more often, but within regions, and differences often seem rather small. Thus, companies with regional structures tend to integrate their activities across a larger group of countries. For example, consumer goods manufacturers like *Unilever* or *Procter & Gamble* nowadays often combine all their activities in the German-speaking countries – Germany, Austria and Switzerland – into one organisational unit. Similarly, operations in a number of Asian regions or in Latin America are more and more often bundled into one organisational unit.

Further Reading

WESTNEY, D.E.; ZAHEER, S. (2010): The Multinational Enterprise as an Organization, in: RUGMAN, A.M. (Ed.): The Oxford Handbook of International Business, 2nd ed., Oxford, Oxford University Press, pp. 341-366.

WOLF, J.; EGELHOFF, W. (2001): Strategy and Structure: Extending the Theory and Integrating the Research on National and International Firms, in: Schmalenbach Business Review, Vol. 53, April, pp. 117-139.

WOLF, J.; EGELHOFF, W. (2013): An Empirical Evaluation of Conflict in MNC Matrix Structure Firms, in: International Business Review, Vol. 22, June, pp. 591-601.

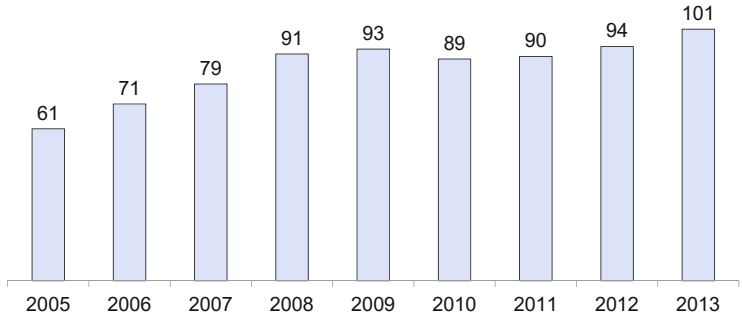
Case Study: Microsoft*

Profile, History, and Status Quo

Founded as a two-man business in a garage in 1975, *Microsoft Corporation* has become one of the largest software companies in the world with more than 100,000 employees in over 100 countries (see Figure 11.7). In addition to developing, licensing and supporting a wide range of software products, *Microsoft Corporation* also designs and sells hardware devices, such as consumer electronics. Besides the world's most widely used operating system, *Microsoft Windows*, and the productivity application *Microsoft Office*, the Multinational Corporation is also known for *Internet Explorer*, the *Xbox* game console, as well as the *Microsoft Surface Series* of tablets.

Development of Total Number of Employees (in thousands)

Figure 11.7



Source: Microsoft 2013a.

The company's success story began with the idea of developing an implementation of the programming language *BASIC* for the recently demonstrated *MITS* (Micro Instrumentation and Telemetry System) product *Altair 8800*. Already in 1978, three years after the foundation, *Microsoft* opened its first international office in Japan. After the initial success with several BASIC-Interpreters (even for one of the first *Apple* computers, the mass-produced *Apple II* microcomputer), a major *milestone* in the company's history was the development of the operating system *MS-DOS* in 1981 for the first *IBM Personal Computer*. In the following years, *Microsoft* released one of the first

* Sources used for this case study include the website http://www.microsoft.com, various company reports and company presentations, as well as explicitly cited sources.

operating systems (OS) with a *graphical user interface* (GUI). The company named it *"Windows"*, because it best described the boxes that were fundamental to the new OS. Meanwhile, *Microsoft* began introducing its popular office product *Microsoft Office*, a bundle of different applications, such as *Microsoft Word* and *Microsoft Excel*. In 1986, *Microsoft* moved from Bellevue, Washington, to Redmond, Washington, where the company is still located. In the same year, the company went public with an *initial public offering* (IPO), raising 61 million USD at 21.00 USD per share. With the development of *Windows 3.0*, *Microsoft Windows* had become the most widely used *OS* in the world and broadened its business from then on to different soft- and hardware products.

Focus on Online Services

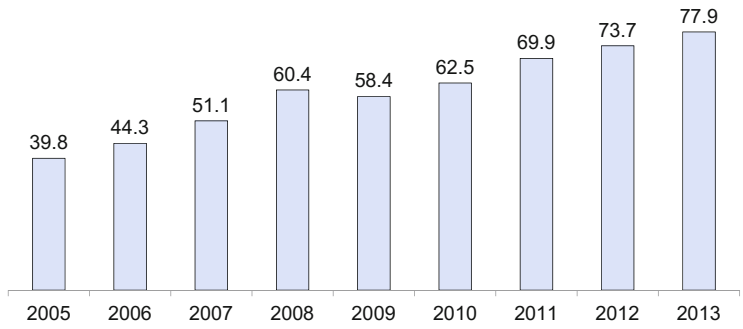
With the beginning of the *Internet age* and Bill Gates' internal "Internet Tidal Wave memo" in 1995, *Microsoft* started to focus on "computer networking and the World Wide Web". The popular *Windows 95* was the company's first OS including an online service like *MSN* as well as a web browser called *"Internet Explorer"*. Over the years, the *Windows OS* was continuously developed (*Win98, WinNT, Win2000, WinXP, Windows Vista, Windows 7, Windows 8*) and is still the world's most widely used system on personal computers.

Development of New Segments

Besides the software segment, *Microsoft* entered the game console market in 2001 with the first version of the *Xbox* to compete with the main players *Sony* and *Nintendo*.

Starting with revenue of 16,005 USD in 1976, *Microsoft Corporation* doubled its revenues from 2005 to 2013 to 77.9 billion USD (see Figure 11.8).

Figure 11.8 *Development of Revenue (in billion USD)*



Source: Microsoft 2013a.

Organisational Development over the Years

Since its foundation in 1975, *Microsoft*'s organisational structure has changed several times, although not all changes were visible and openly communicated. Starting as a private company with eleven employees and a *flat organisational structure*, *Microsoft's* progressive development led to a need to adapt the organisational environment.

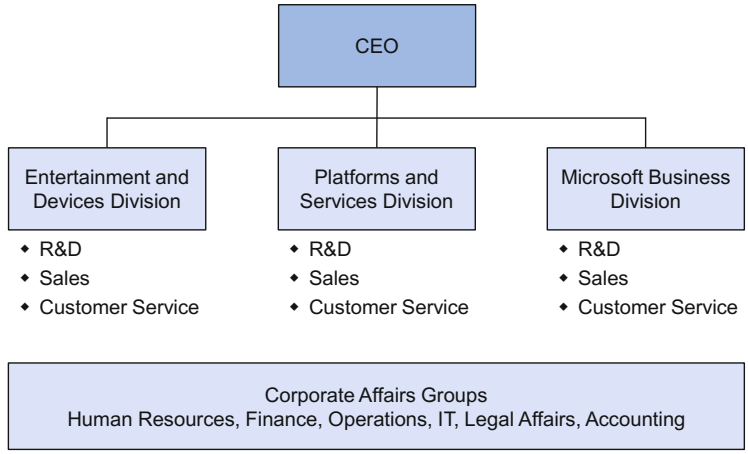
Organisational Change in 2005

Already in 2005, *Microsoft* recognised the upcoming danger of new competitors such as *Google Inc.* and *Yahoo Inc.* and therefore adapted its own structure. These changes were intended to help *Microsoft* "move toward more Internet-based service offerings" (The New York Times 2005). Within this change, the former seven operative business units "*Client*", "*Server and Tools*", "*Information Worker*", "*Microsoft Business Solutions*", "*MSN*", "*Mobile and Embedded Devices*" and "*Home and Entertainment*" were aggregated into five new business units:

- The "*Client*" division had the overall responsibility for the technical architecture, engineering, and product delivery of the *Windows* product family. This division was also responsible for the relations between *Microsoft* and computer manufacturers or OEMs, as well as for the marketing, sales and product development expenses.
- The "*Server and Tools*" division dealt with the development and marketing of software service products, services and solutions.
- Besides the management of third party alliances, such as *expedia.com* or *MSNBC.com*, the "*Online Services Business*" division was responsible for e-mail and instant messaging. Furthermore, the division was in charge of the *MSN* and live search portals.
- The "*Microsoft Business Division*" offered the famous *Microsoft Office* products and the *Microsoft Dynamics* business solutions.
- *Microsoft's* video game system *Xbox,* as well as the accessories and games, were managed by the "*Entertainment and Devices Division*".

All these divisions are responsible for engineering as well as for marketing and sales. Through this company structure, *Microsoft* had a classic *divisional organisation structure*. The teams were organised around individual products and not around different functions. Figure 11.9 shows the organisational structure of *Microsoft* as of 2006, including the corporate affairs groups, such as "*Human Resources*" and "*Finance*". The divisions *Client, Server and Tools* as well as *Online Services Business* report directly to the President of the "*Platforms & Services Division*".

Figure 11.9 *Microsoft's Organisational Structure as of 2006*



Source: Adapted from Microsoft 2006.

Strategic Change 2013: "One Microsoft"

Mobile Internet as a Driver of Change

Due to the tremendous growth of *broadband and mobile Internet,* as well as changes in consumer experiences with innovative devices such as *tablets and smartphones*, former CEO Steve Ballmer realised the need for change. "We have entered an always-on, always-connected era that holds new promise for what technology can bring people's lives and to businesses everywhere on the planet. And this gives us an opportunity to help people lean in and do more in every part of their lives".

In a memo that was sent to all employees on July 11, 2013, former *Microsoft* CEO Steve Ballmer announced a "far-reaching realignment" of the company in order to position *Microsoft* for the future. This repositioning should help "to innovate with greater speed, efficiency and capability in a fast changing world (...). Today's announcement will enable us to execute even better on our strategy to deliver a family of devices and services that best empower people for the activities they value most and the enterprise extensions and services that are most valuable to business", explained the CEO.

Even in 2012, the strategic change of *Microsoft* commenced with a complete working-over and a fundamental change of the *business model*. Starting predominantly as a software company, *Microsoft* now has to deal with all new competitors on the market. Competing companies like *Apple, Google* and

Facebook already focus on their products, whereas *Microsoft* until now has concentrated on its different divisions, which hindered the company in its efforts to innovate faster and in a more market-oriented manner. A worldwide downturn, in 2012, in PC buying was distinguishable and *Microsoft* also struggled to establish itself in mobile devices and services. Therefore, *Microsoft* developed a single strategy as one company, instead of several different divisional strategies with the overall goal of having "*One Microsoft*". The idea behind this is to collaborate and allocate resources even more efficiently.

Strategic change had already become apparent from the acquisitions of voice-over-IP service (VoIP) *Skype* in 2011, enabling Microsoft to emerge as a provider of innovative services and devices. Due to this acquisition, *Microsoft* retired its *Windows Live Messenger* instant messaging service. Some further major acquisitions are summarised in Table 11.5.

List of Major Microsoft Corporation Acquisitions

Table 11.5

Year	Company
1987	Forethought (computer software)
1997	Hotmail (web-based email service)
2000	Visio (drawing software)
2002	Navision (software programming)
2007	aQuantitave (digital marketing)
2008	Fast Search & Transfer (data search technologies)
2011	Skype (telecommunications)
2012	Yammer (social networking)
2013	Nokia mobile phones unit
2014	Parature (customer service software)

Source: Microsoft 2014.

Provider of Devices and Services

In the end, *Microsoft* managed to develop from a software provider to a company that focusses on "creating a family of devices and services for individuals and businesses", a typical structure for competitors such as *Apple* and *Google*. As a logical consequence, *Microsoft* acquired the mobile phones unit of the Finnish information technology company *Nokia*, a supplement to the *existing cooperation* between the companies.

The Impact of "One Microsoft" on the Organisational Structure since 2013

Structure Follows Strategy

In conformity with the "*structure follows strategy*" thesis of Chandler (1962), *Microsoft's* new strategy necessitated some major adjustments to the organisational structure. The former divisional structure was phased out and replaced by a *functional organisational* structure. The five divisions "*Business Division*", "*Server and Tools*", "*Windows*", "*Online Services*", as well as "*Entertainment and Devices*", which were renamed continuously since the last major reorganisation disappeared and were substituted by four engineering groups (including supply chain activities and datacentres):

- The "*Operating Systems Engineering Group*" is responsible for the development of the *OS* for the *Xbox* console, as well as for mobile devices, personal computers and back-end-systems. *Windows* embedded systems that focus mainly on appliances and cars are also included in this group.
- The "*Devices and Studios Engineering Group*" is responsible for the development of *Microsoft's* hardware products as well as for the studio experiences. In this group, the game console *Xbox* will be advanced to compete with *Sony* and *Nintendo*, as well as the *Microsoft Surface* tablet and other hardware devices, such as mice, keyboards, joysticks and gamepads.
- The "*Applications and Services Engineering Group*" is taking care of broad application and core services technologies in communication, productivity, search, and other information categories. They produce *Microsoft's* online services *Skype, Bing, SkyDrive, MSN* and *Outlook.com,* as well as the enterprise applications *Exchange* and *SharePoint*. Furthermore, the office software *Microsoft Office* is integrated into this group.
- The "*Cloud and Enterprise Engineering Group*" deals with the development of back-end technologies, like datacentre, database, and other enterprise IT-related technologies, cloud computing platforms, like *Windows Azure,* and other server-related products.

As a special case, the "*Microsoft Dynamics Team*" was left as it was. No far-reaching changes are planned other than "matrixing in the marketing and some of the other functions" (PCWorld 2014). Besides the engineering groups, the realignment resulted in different *centralised groups*:

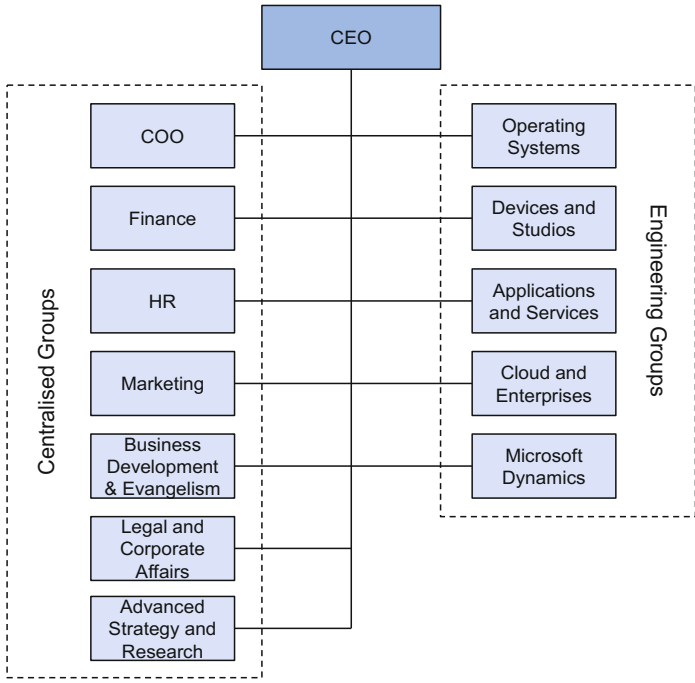
- The "*Advanced Strategy and Research Group*" focusses on the intersection of technology and policy.
- The "*Marketing Group*" is mainly responsible for centralised advertising and media functions as well as for marketing strategy.

- The "*Business Development and Evangelism Group*" centralises management with the key partners, especially the innovation partners, such as OEMs and key developers.
- The "*Finance Group*" takes responsibility for and centralises all product group finance organisations.
- The "*Legal and Corporate Affairs Group*" including the *General Counsel* deals with the company´s legal and corporate affairs.
- The "*HR Group*" takes care of all staffing issues.
- The "*COO*" continues leading worldwide sales, field marketing, services, support, as well as IT, licensing and commercial operations.

Figure 11.10 summarises the new organisational structure of *Microsoft* in 2013.

Microsoft's Organisational Structure as of 2013

Figure 11.10



Source: Adapted from Microsoft 2013b.

To gain from the new strategy and the organisational change, the way staff works together is the key success factor. It is necessary to move on from recent procedures into innovative ways of thinking and acting. *Microsoft* defined *new processes* of working in teams and runs various *initiatives*. Each initiative is handled by a cross-company team, consisting of members from the different groups and will be led by a so-called "*champion*". The groups have a *core*, which delivers key technology or services. Through this project-like structure, involving the engineering and centralised groups, *Microsoft* wishes to enhance the innovation process in order to be more competitive against the main rival companies.

Summary and Outlook

Founded as a small software enterprise in 1975, *Microsoft* has developed from a software company to a provider of a wide range of IT-related devices and services. Due to this development, organisational changes were the logical consequence, in order to remain competitive in the closely contested technology market. Tremendous organisational change like this needs time to work effectively. However, the odds are that these changes will boost *Microsoft's* endeavour to capture a higher share, especially of the smartphone and tablet markets.

Questions

1. *Microsoft Corporation* fundamentally changed its organisational structure in 2013, from a divisional to a functional structure. What potential problems can accompany organisational changes of this kind?
2. *Microsoft's* overall organisational structure is described as a functional one. What are the important advantages and disadvantages for the *Microsoft Corporation* that result from this shift in organisational structure?
3. As a listed, Multinational Corporation in the IT sector, *Microsoft* is continuously striving to grow. Accordingly, numerous other companies were acquired during the last three decades. Describe the potential impacts of M&As on a company's organisational structure.

Hints

1. See, e.g., Folger and Skarlicki 1999, pp. 35-50.
2. See, e.g., Griffin and Pustay 2013, pp. 398-400.

References

BARTLETT, C.A.; BEAMISH, P.W. (2014): Transnational Management: Text, Cases, and Readings in Cross-Border Management, 7th ed., Boston, McGraw-Hill.

BUCKLEY, P. (1996): The Role of Management in International Business Theory: A Meta-analysis and Integration of the Literature on International Business and International Management, in: Management International Review, Vol. 35, No. 1 Special Issue, pp. 7-54.

CHANDLER, A. (1962): Strategy and Structure: Chapters in the History of the American Industrial Enterprise, Cambridge, MIT Press.

COCA-COLA (2014): 2013 Annual Review, Atlanta.

DERESKY, H. (2014): International Management: Managing Across Borders and Cultures, 8th ed., Boston, Pearson.

FOLGER, R.; SKARLIKI, D. (1999): Unfairness and Resistance to Change: Hardship as Mistreatment, in: Journal of Organizational Change Management, Vol. 12, No. 1, pp. 35-50.

GRIFFIN, R.; PUSTAY, M. (2013): International Business: A Managerial Perspective, 7th ed., Upper Saddle River, New Jersey, Pearson.

HILL, C.W.L. (2013): International Business: Competing in the Global Marketplace, 9th ed., New York, McGraw-Hill.

LIEBHERR (2014): The Organizational Structure of the Group, http://www.liebherr.com/en/deu/about-liebherr, accessed on July 18, 2014.

MARTINEZ, J.; JARILLO, J. (1989): The Evolution of Research on Coordination Mechanisms in Multinational Corporations, in: Journal of International Business Studies, Vol. 20, No. 3, pp. 489-514.

MICROSOFT (2006): Annual Report 2006, Seattle.

MICROSOFT (2013a): Annual Report 2013, Seattle.

MICROSOFT (2013b): One Microsoft, http://www.microsoft.com/en-us/, accessed on June 22, 2014.

MICROSOFT (2014): Acquisition History, http://www.microsoft.com/investor/, accessed on July 14, 2014.

MONDELEZ INTERNATIONAL (2014): Annual Report 2013, Deerfield.

NOHRIA, N.; GHOSHAL, S. (1997): The Differentiated Network: Organizing Multinational Corporations for Value Creation, San Francisco, Jossey-Bass.

PCWORLD (2014): Ballmer: Three-layered Plan Will Lead to "One Microsoft", http://www.pcworld.com/article/2049102/ballmer-threelayered-plan-will-lead-to-one-microsoft.html, accessed on July 22, 2014.

PROCTER & GAMBLE (2014): Corporate Structure, http://www.pg.com/en_US/company/global_structure_operations/corporate_structure.shtml, accessed on July 11, 2014.

RUGMAN, A.M.; VERBEKE, A. (2003): Regional Multinationals: The Location-bound Drivers of Global Strategy, in: BIRKINSHAW, J.M.; GHOSHAL, S.; MARKIDES, C.; STOPFORD, J.; YIP, G. (Eds.): The Future of the Multinational Company, Chichester, Wiley&Sons, pp. 45-57.

SHENKAR, O.; LUO, Y. (2008): International Business, 2nd ed., Thousand Oaks, Sage Publications.

STIHL (2014): Unternehmensstruktur, http://www.stihl.de/unternehmensstruktur.aspx, accessed on July 17, 2014.

STOPFORD, J.; WELLS, L. (1972): Managing the Multinational Enterprise, London, Longmans.

THE NEW YORK TIMES (2005): Microsoft Announces Major Reorganization, http://www.nytimes.com/2005/09/20/technology/20wire-msft.html, accessed on June 22, 2014.

THOMPSON, J. (1967): Organizations in Action: Social Science Bases of Administrative Theory, New York, McGraw-Hill.

WESTNEY, D.E.; ZAHEER, S. (2010): The Multinational Enterprise as an Organization, in: RUGMAN, A.M. (Ed.): The Oxford Handbook of International Business, 2nd ed., Oxford, Oxford University Press, pp. 341-366.

WOLF, J.; EGELHOFF, W. (2001): Strategy and Structure: Extending the Theory and Integrating the Research on National and International Firms, in: Schmalenbach Business Review, Vol. 53, April, pp. 117-139.

WOLF, J.; EGELHOFF, W. (2013): An Empirical Evaluation of Conflict in MNC Matrix Structure Firms, in: International Business Review, Vol. 22, June, pp. 591-601.

ZENTES, J.; SWOBODA, B.; MORSCHETT, D. (2004): Internationales Wertschöpfungsmanagement, Munich, Vahlen.